AR51

PETLOCK, RUDER & FINN LIMITED

21 DUNDAS SQUARE, TORONTO 2 CANADA, TEL. 363 - 5848

FACT BOOK

DYLEX DIVERSIFIED (1967) LIMITED

JANUARY 16, 1969

NEW YORK: RUDER & FINN INCORPORATED, 130 EAST FIFTY-NINTH STREET, NEW YORK, N. Y. 10022
AFFILIATES IN PRINCIPAL CITIES THROUGHOUT THE WORLD

FACT BOOK

DYLEX DIVERSIFIED (1967) LIMITED

INDEX

THE COMPANY

DYLEX DIVERSIFIED (1967) LIMITED

(Corporate and Divisional offices)
637-657 Lakeshore Boulevard West, Toronto

EXECUTIVES:

Louis H. Posluns, Chairman of the Board

James F. Kay, President

Wilfred Posluns, Secretary, Treasurer

Irving Posluns, Executive Vice-President

Jack Posluns, Executive Vice-President

THE COMPANY:

Dylex Diversified (1967) Ltd., is a multi-faceted, operationally oriented growth corporation, whose activities include the manufacturing, distribution and retailing of consumer goods, men's and women's clothing, home furnishings, plastic food containers, plastic sheeting for industrial, institutional and home use, and a range of products for domestic and industrial use.

It is the result of the merger on July 31, 1967, of the companies headed by James F. Kay and grouped under Dylex Diversified Limited, and the group of companies operated by the Posluns family.

- more -

The companies controlled by James Kay included: Singer Lighting Company, Ackron Plastics, French Ivory Products, Plasti-Pak, Kurly Kate (Canada Limited, the Fairweather Company Ltd., and its subsidiary, Family Fair Stores.

The Kay group of companies had excellent profit potential but required increased management depth for expanded growth.

The Posluns' companies, Irving Posluns Sportswear and Jack Posluns and Company, manufacturing ladies and children's apparel under the companies' names, as well as under the Junior Deb name, had achieved a sizeable penetration of the Canadian market.

The Posluns' companies showed good profits but space hindered their expansion potential.

The owners of the two groups realized that the strengths and requirements of each would be ideally suited to a merger.

But a merger "vehicle" was needed. Tip Top Tailors was a public company operating about 50 retail stores across Canada, and manufacturing two brands of men's suits -- Botany 500 and Leishman -- through the Canadian Clothiers plant on Lakeshore Boulevard.

Neither part of the company had performed well for some time, and the company was "ripe" for purchasing and reorganizing.

When the groups acquired a controlling interest in Tip Top Tailors on December 29, 1966, the vehicle for the merger was provided.

During 1968, Dylex acquired the 10-store Fashion Council chain, Harry Rosen Gentlemen's Apparel Ltd., and the Nu-Mode Dress Company.

Early in 1969, the announcement was made of the merger of the Fashion Council and Fairweather chains, to extend the strong fashion image of the Fashion Council stores through the Fairweather group. In keeping with the company's philosophy of centralizing operations, the new, enlarged group will feature central buying and merchandising, backed by the world-wide Dylex operations.

Starting with the Fairweather Yorkdale store, renovations are planned for several of the stores in the chain.

PHILOSOPHY

PHILOSOPHY:

The conglomerate form of corporate structure is frequently misunderstood, primarily because the complexity of a conglomerate's make-up can tend to be somewhat confusing, and its underlying philosophies may not be clearly stated.

In the case of Dylex Diversified, the fact that to date it has concentrated heavily in the area of soft-goods manufacturing and merchandising helps clarify its overall nature.

More important, however, is the basic philosophy which has guided the company's activities from the outset, and which will continue to provide the ground rules for its further growth and development -- whatever form this may take.

Dylex Diversified is described as a multi-faceted, operationally oriented growth corporation. To gain a proper understanding of what this implies, these terms must be explained more fully.

A growth company

Because the size of the Canadian market precludes most companies with single interests from attaining sufficient size to warrant the application of some of the more advanced and sophisticated management methods, the Dylex management looks to careful acquisition policies along with refined internal development techniques for its growth potential.

In its acquisition program, Dylex is not only concerned with building financial strength (which has been regarded as the sole concern of some other conglomerate-type companies) but with operational strength as well. To this end, Dylex primarily seeks out exceptional company management, and while such things as earnings and general company position are obviously important, they are given secondary status.

- more -

One of the reasons for this is the awareness of the company's principals that in relatively small, independent companies, earnings and overall corporate position may be affected by such things as physical or capital limitations, which can be easily overcome in a conglomerate setting; along with their appreciation of the fact that entrepreneurial businessmen who have built successful, but relatively small operations on their own, can often operate even more effectively within a free-flowing conglomerate atmosphere, with all the management and financial advantages it can offer.

An operationally oriented company

The aspect of Dylex Diversified that gives it its strongest stamp of individuality is its management concept. It is this concept which has been chiefly responsible for the company's success to date, and it will undoubtedly be the key to its future progress.

Starting from the top and running down through the entire company, management positions have been established, not on the traditional, rigid basis of descending, overall authority, but on a flexible, free-flowing structure that stresses broad-ranging executive cooperation, while allowing for intense specialization and at the same time maximizing opportunities for entrepreneural action at all levels.

The company has broken with traditional management practices right at its top-level management position. The four members of the founding group -- James F. Kay, and Wilfred, Irving and Jack Posluns -- hold the controlling interest in Dylex Diversified. But instead of the "office of the president" being occupied by one individual with authority over all corporate affairs, it is a function exercised collectively by the four founders. James Kay holds the title, but the actual function of the presidential office can be carried out at any given time by any one of the four, and "presidential" decisions are more customarily group decisions.

redundant

the management

Closely allied with ~~this~~ group ~~in the management of the company~~ is a ~~top-level~~ team, consisting of ~~two expert~~ consultants and seven senior ~~business~~ partners.

The consultants: Wm. Eisenberg -- a chartered accountant, and the company's auditor; and David Korn -- chartered accountant of Winnipeg, and head of the Manitoba Chartered Accountants Association.

title?

The seven senior partners: Louis H. Posluns, Chairman of the Board; Harry Rosen; Syd Loftus; Irving Levine; Lionel Robins; William Singer; and Henry Zagdanski.

Each had achieved outstanding individual success in his own right before joining forces with the Dylex organization. Each, independently, had successfully mastered all aspects of business management, and in addition had developed the entrepreneural flair that is so essential to successful mass-merchandising in any field.

cliche!

redundant!

redundant

Each member of the team carries complete individual responsibility for a specific area of the Dylex operation; and all members sit ~~as equal members~~ equally with the founding four on regular, informal policy discussions -- as a group, or as needed according to their ability to contribute to particular situations.

In effect, the Dylex senior management consists of a "cabinet" of 13 highly successful businessmen, each of whom has broad knowledge of all aspects of business operations.

Below them are the managers of the various company sections. At this level as well, the Dylex concept differs from that of most corporate managements. It is based on a highly refined use of the "profit center" idea.

The Profit Center idea

The concept of "profit centers", where each division of a company operates as an independent profit producer, is not new. In the Dylex organization the profit centers are not only finely tuned to specific corporate operations, but are made highly competitive as well.

Fundamental to the profit center idea as practiced by Dylex is the requirement that the success of each executive rests squarely on the success of his component in the organization.

The operations of each individual company have been broken down into their operating components, so that the various "common denominator" services could be collected together and then operated as separate profit centers serving all companies in the organization. Each service provided within the company in this way must pay its way by charging competitive rates, and the corporate groups are not required to use the services if they can do better outside the company.

Any operation within the overall organization that can be broken out and made into a separate business, is turned into an independent, competitive profit center in this way. Some of the areas where this has been done include: the computer and related accounting activities; the retail credit services; warehousing; purchasing; shipping and receiving; and so on all the way down to such groups as the company's carpenter pool.

Thus the efficiency that is necessary for detailed, routine operations is supplied by central services, while the basic entrepreneural functions of each company, whether they be merchandising, production or styling, are left relatively purified to be given full attention by managers with these special abilities.

In addition to being able to call on specialists in each of the centralized service supply operations, the managers of the various companies regularly sit in on the meetings with the senior "cabinet" group when their operations are under discussion, and they also have the advantage of being able to call on the experience and abilities of any or all members of this group for advice and assistance whenever necessary.

Breaking down each part of the organization into its basic functions not only allows the activities to be grouped in the most efficient manner, but also has an important side benefit: it is much more difficult this way for problems to remain hidden than is the case when results are related to a broader corporate base.

Where companies are acquired with built-in central services of their own, these will be retained -- but always with the same corporate bench-marks requiring them to be competitive with the company's, or outside services, and to operate as effective profit centers.

The overall effect of the Dylex management concept is to produce a highly competitive management structure, completely trimmed of excess fat, staffed by only the essential minimum of extremely capable executives, that provides a self-expressive, entrepreneural environment which by its nature encourages, and even demands, exceptional results.

A multi-faceted company

The Dylex acquisitions have so far largely been in the soft goods manufacturing and retailing areas, supplemented by moves into plastics manufacturing and a range of consumer and industrial products. With the success of its operations to date, the company believes that its concepts and talents could be applied in future to virtually any applicable business area.

KEY PERSONNEL

KEY PERSONNEL: The extent to which the founders of Dylex Diversified have strengthened their management team by seeking out dynamic, successful businessmen as the main objective of their acquisition program, can be clearly seen by the stature of the people who have already joined the organization.

Irving Levine and Lionel Robins, for example, built and developed the Fashion Council into what is generally considered to be the leading chain of ladies fashion stores in Canada. After joining Dylex, their flair for merchandising and styling made such an effective contribution to the overall operation, that the decision was made to merge the Fairweather chain with the Fashion Council stores, to enable the company to carry out an even stronger role in the Canadian fashion world.

Harry Rosen has become widely known throughout the Metropolitan Toronto area and beyond as "Mr. Fashion" of the men's apparel world. A master merchandiser, his "Ask Harry" advertisements have set the standard for the entire industry. In addition to continuing to guide the Harry Rosen Gentlemen's Apparel store on Richmond Street, and supervising the March, 1969 opening of a new store in the Yorkdale Plaza, his merchandising talents have been put to substantial use in the Tip Top Tailors operations.

William Singer had built an extremely successful lighting business, following which his company had been taken over by Dylex. The Dylex management then convinced him to contribute his knowledge and abilities to the larger organization. Since joining Dylex, he has taken charge of the Plastics Division and has brought about a dramatic streamlining of the operation which should materially affect its earnings picture.

- more -

Like the others above, Henry Zagdanski was extremely successful in his own right before joining Dylex, when his Nu-Mode Dress Co. became part of the growing organization. An acknowledged expert on styling and merchandising, he built his company to the point where it is widely regarded as the most successful ladies clothing manufacturing firm of its kind in Canada.

A strong young team

Coupled with the broad experience of the company's operating executives, the fact that they are all relatively young, with an average age of 42, holds profound implications for the company's future prospects.

Following are the ages of the company's key operating executives.

James F. Kay, 46
Wilfred Posluns, 36
Irving Posluns, 44
Jack Posluns, 39
Harry Rosen, 37
Syd Loftus, 40
Irving Levine, 39
Lionel Robins, 34
Henry Zagdanski, 43
William Singer, 51

REORGANIZATION & IMPROVEMENT

REORGANIZATION & IMPROVEMENT: In taking over the operating of Canadian Clothiers, many efficiencies were introduced to improve its performance. For example, with the cooperation of the union, broad changes were made to eliminate waste in staffing, and production methods were tightened up. Throughout the Tip Top Tailors stores, previously non-selling managers were put on a selling basis, salesmen's remuneration was changed from salary to commission, several new stores were opened, and the existing stores were expanded where necessary and refurbished. In the process, the number of sales people was reduced, but those remaining were able to improve their earnings, and the performance of the chain showed immediate improvement.

The Posluns' companies previously had been manufacturing their products in different, unrelated downtown locations. By fortuitous coincidence, the Lakeshore Boulevard building had had considerable unused space. Two full floors of the building were specially engineered for what is now considered one of the most efficient women's clothing manufacturing operations on the continent. Combining all the merged companies' clothing manufacturing activities in the one building eliminated the rentals that previously had had to be paid for the various uncoordinated operations, and at the same time created what is believed to be the largest operation of its kind in Canada under one roof.

GENERAL DESCRIPTION

GENERAL DESCRIPTION: The company owns 15 subsidiaries employing 3,000 people in its manufacturing and retail divisions.

Dylex manufactured, distributed and/or sold goods valued at $43,000,000 during the fiscal year which ended August 3, 1968 (including all inter-divisional sales). The retail group sold $25,000,000 in consumer goods; the clothing manufacturing group produced $13,000,000, and the consumer and industrial group consisting of the plastics division, the consumer goods division and the lighting and home furnishings division, had sales totalling $5 million.

Estimated figures for the six-month period which ended February 1, 1969, show retail sales of approximately $15,000,000, clothing manufacturing sales of about $7,000,000, and consumer and industrial sales of about $3,000,000. (It should be noted that sales of the Fashion Council chain, the Harry Rosen store and the Nu-Mode company, for about half of this period, were included for the first time in these latest figures.)

Dylex operates one of the country's largest retail organizations selling men's, women's and children's clothing, through 102 shops in 39 communities; Tip Top Tailors has 62 stores in 9 provinces; Fairweather Co. Ltd., 23 stores in Ontario, Quebec and Manitoba; Family Fair (a low-price subsidiary of Fairweather), six stores in Ontario; there are ten Fashion Council shops operating under various names in the Toronto area; and the Harry Rosen Gentlemen's Apparel Co. Ltd., has one Toronto store.

FINANCIAL HISTORY

FINANCIAL HISTORY:

On July 31, 1967, the company purchased the assets and undertakings of the following companies:

Irving Posluns Sportswear

Jack Posluns and Company

Singer Lighting Company

Kurly Kate (Canada) Limited

The French Ivory Products Limited

Fairweather Company Limited

On the same date, the company purchased all the issued shares of:

Ackron Plastics Limited

Plasti-Pak Containers Limited

Family Fair Stores Limited
(a wholly-owned subsidiary of
Fairweather Co. Ltd.)

The corporate name of the company was changed to DYLEX DIVERSIFIED (1967) LIMITED. 250,000 common shares were issued as part payment for the assets and shares acquired by the company: 75,000 shares were issued to full-time key employees; (An additional block of 100,000 "A" shares was approved for issue to key company employees at the Annual and the Special General Meeting held November 27, 1968); The company obtained $2,707,000 in capital from the following sources: disposal of assets -- $890,000; sale of shares -- $1,300,000; and cash flow -- $517,000.

<u>Authorized Capital (as of December 27, 1968)</u>:

Not exceeding $30,000,000

A. 10,000,000 class A participating preferred shares restricted voting rights.

B. 1,000 class B non-participating preference shares restricted voting rights.

Not exceeding $7,000,000

C. 3,000,000 common shares non-participating preferred.

<u>Stock Split - December 2, 1968</u>: Three new class A shares and one common share were issued for each common share.

<u>Private stock placement - December 20, 1968</u>: 300,000 class A shares were privately placed through the company's agents, at a net price to the Dylex treasury of $18.50 per share.

<u>Key Employee Stock Plan</u> (Profit Sharing): Approved July 31, 1967: Authorized 100,000 class A participating preference shares.

Shares have been allocated to full-time key employees. None were allotted or issued to any director of the company or to his immediate family. The employees are able to purchase their shares through a company-financed, deferred-payment plan over a 10-year period.

DIVISIONAL ORGANIZATION

DIVISIONAL ORGANIZATION:

Corporate head offices, Tip Top Tailors, Fashion Council, Fairweather's and Family Fair head offices, and Central Services Group:

Lakeshore Building.

Clothing Manufacturing Division:

Lakeshore Building.

Canadian Clothiers

Irving Posluns Sportswear

Jack Posluns and Company

Junior Deb

116 Spadina Avenue.

Nu-Mode Dress Co.

Plastics Manufacturing Division:

220 Rexdale Boulevard.

Ackron Plastics Limited

French Ivory Products

Plasti-Pak Containers Limited

Home Furnishings Manufacturing Division:

25 Ritchie Street.

Singer Lighting Co.

Consumer Products Manufacturing Division:

10 Queen Elizabeth Boulevard.

Kurly Kate (Canada) Ltd.

Retail Divisions:

Tip Top Tailors Ltd.
62 stores (across Canada)

The Fairweather Co. Ltd.
23 stores (Ontario & Quebec & Manitoba)

Family Fair Stores
6 stores (Ontario)

Harry Rosen Gentlemen's Apparel Ltd.
1 store: 117 Richmond Street West
(a second in March, 1969)

Fashion Council
10 stores (Ontario)
(independent stores under various names)

The Lakeshore Building

The Head Offices of Dylex Diversified (1967) Limited and several of the Clothing Manufacturing Division companies are located in one large building at 637 Lakeshore Boulevard West, near Toronto's waterfront, one block west of Bathurst Street. The building was constructed of reinforced concrete in 1929 and has 260,000 sq. ft. of floor space including a basement which is fully utilized.

After acquiring the property, Dylex spent nearly $1 million on improvements, following which the building was appraised by a real estate investment firm at $2.7 million.

On the first floor are the corporate executive offices, the computer center, manufacturer's buyer showrooms, administration offices for the Retail Division, a completely equipped briefing room with projection equipment and other audio-visual devices, accounting, payroll and personnel administration offices. In a rear wing is the retail distribution center.

In the completely finished, above-ground basement area is a large cafeteria, the factory area for Junior Deb, the advertising department offices, display department, machine shop and heating plant.

The Clothing Manufacturing Division:
The company operates one of the most modern and efficient men's and women's clothing production houses in Canada. Occupying floors 2-6 in the Lakeshore building, it is believed to be the largest in Canada. The division's 1,500 men and women are experts in the garment trade. Its equipment is the best obtainable.

- more -

Shipments of cloth and other materials are examined in detail following delivery. Flaws are rejected. Cloth for men's clothing is examined, pre-shrunk in a steaming machine, dried and folded into suiting widths. Bolts are then separated by grades and colors.

Highly skilled tailors cut the cloth. Men's made-to-measure suits, jackets and trousers are cut-to-order by hand. The various components of ready-to-wear suits, jackets and trousers, and ladies' coats and dresses are produced in multiples by cutting machines to the required size.

Computerized electronic cutting systems are now being developed and the company is investigating their application in its clothing manufacturing division.

- more -

New ways of packaging various items of apparel are also being investigated. One technique involves automated packaging equipment, employing lightweight, colorful materials, which can be adapted to the Lakeshore Building operations. It could eliminate hand packaging and boxing, and allow shipments to be more quickly and accurately assembled while reducing handling and warehousing costs.

The clothing manufacturing companies can assure their retail and department store customers that items are readily available, in quantity, color range and size, from stock. The stock and inventory control systems are designed to minimize obsolescence of materials and lines, avoid overproduction, and enable production supervisors to proceed with economically worthwhile production runs.

- more -

<u>Canadian Clothiers</u>: - Lakeshore Building - 5th and 6th Floors

The company is one of Canada's largest men's clothing manufacturers. Until a few years ago, men's fashions saw little change from season to season, and the company, like others in the industry, simply introduced new materials and colors for the spring and fall seasons. Today, many style changes come and go -- the company avoids overproduction of any one line, style or color.

Buyers closely monitor style changes. Material inventories and garment production are scheduled by the central computer. Customer demand in the retail chain of stores is analyzed, trends are quickly spotted, enabling the company to react quickly.

Approximately 75 per cent of production is in ready-to-wear men's suits, occasional jackets and trousers; the remainder consisting of made-to-measure operations.

A substantial portion of the production is destined for the Tip Top Tailor chain of retail stores. Principal lines include Worsted-Tex, Botany 500 ready-to-wear suits manufactured under license in Canada, and Leishman higher-quality, made-to-measure suits, jackets and trousers.

Canadian Clothiers also manufactures a line of quality men's clothing for many of the nation's major department and specialty stores.

Irving Posluns Sportswear
Jack Posluns and Company
Junior Deb - Lakeshore Building - 2nd and 3rd Floors

The three companies moved into the Lakeshore Building in 1968 without loss in production or major delays in deliveries.

All three firms manufacture ladies and young misses' apparel, and in recent years each has increased its share of domestic and export markets. Irving Posluns Sportswear has recently extended its activity to include the leather coat and jacket field.

Plastics Division:

This division consists of Ackron Plastics Limited, French Ivory Products and Plasti-Pak Containers Limited. All three companies are located at a new, specially designed plant at 220 Rexdale Boulevard in Toronto, which is now being expanded.

The division manufactures plastic food containers and film and has achieved a sizeable penetration of the commercial and domestic markets.

Plasti-Pak Containers Ltd. manufactures rigid plastic food containers for the packaging of margarine, yogurt, honey and other foods, and services several of the largest food processing companies in Canada.

Ackron Plastics Limited extrude clear polyethylene film for industrial applications and the construction industry, as well as colored garbage bags for home, commercial, institutional and industrial use. Market growth of these products is conservatively estimated at 30 per cent compounded annually for the next few years.

Consumer Products Division:

This division manufactures and distributes the Kurly Kate line of products for domestic and industrial use: pot cleaners, metal scouring sponges, polypropylene pot cleaners, scour cloths, chemically treated cloths of many kinds. It also distributes a line of sponges imported from England.

Products are sold to major supermarket dealers and national companies such as Fuller Brush Co., Stanley Home Products and others.

Singer Lighting - (Home Furnishings Division):

The Singer name has been one of the quality brand names in the medium-priced lamp and shade field for many years. The operation was purchased from the Singer family in 1965 by James Kay.

Main product lines are electric table and floor lamps and shades, lamp tables, specialty lamps, wrought-iron room dividers and bookstands, picture frames and prints.

The company has embarked on a detailed study of other lines compatible with its markets.

RETAIL OPERATIONS

RETAIL OPERATIONS:

In early 1967, the company embarked on a large-scale expansion of its retail operations. Seventeen new Tip Top, Fairweather and Family Fair stores were opened. Additional units are planned for 1969, along with a second Harry Rosen Gentlemen's Apparel store in Toronto.

More than $900,000 was invested in fixtures and $900,000 in inventory and retail credit. An additional $100,000 was assigned to store opening costs, including promotion.

An unusual side effect of the success of the Tip Top and Fairweather stores under the Dylex management was the offer, by several landlords, to invest in leasehold improvements. Previously, these retail chains were expected to make large-scale renovations as capital investment. More than $700,000 in leasehold improvements was thus accomplished involving no capital outlay by Dylex.

Ten ladies' wear and apparel shops in the Toronto area, operating under various names, are administered by the central retail group. These shops, constituting the Fashion Council organization, include: Braemar of Yonge Ltd., Braemar of Yorkdale Ltd., Braemar of Don Mills Ltd., Braemar Ladies Wear (Downtown) Ltd., Laura Lee Ltd., Four Winds Dress Shops Ltd., L & L Ladies Wear Ltd., Braemar Pen Centre Ltd., Braemar of Burlington Ltd., and Nu-Mode Dress Co.

DYLEX ACCEPTANCE CORPORATION LIMITED

DYLEX ACCEPTANCE CORPORATION <u>LIMITED</u>:

This subsidiary handles all paperwork connected with credit sales and is responsible for all service charges and collections.

Like all of the other corporate services, Dylex Acceptance is a separate profit center, and its use by member companies is conditional on its ability to compete with outside acceptance firms. Unlike standard acceptance companies which maintain substantial capital positions, Dylex Acceptance operates entirely on borrowed capital. Despite this it has managed to provide fully competitive services and return a net profit of about five per cent after paying interest on its borrowed funds, which compares very favorably with industry averages. Dylex Acceptance has current outstandings of about $2\frac{1}{4}$ million.

SUMMARY OF RETAIL OPERATIONS & STORE LOCATIONS

<u>SUMMARY OF RETAIL OPERATIONS & STORE LOCATIONS</u>:

The 102 retail stores operated by the Retail Division are organized and located as follows:

<u>Tip Top Tailors</u>: 62 stores, Coast to Coast

1 in Newfoundland (St. John's);

4 in Nova Scotia (Halifax, Dartmouth and Sydney);

2 in New Brunswick (Moncton and Saint John);

8 in Quebec (4 in Montreal, 1 in Quebec, Ste. Foy, Chicoutimi, Pointe Claire);

34 in Ontario (10 in Toronto, 5 in Ottawa, 3 in Kitchener, 2 in Hamilton, 2 in St. Catharines, 1 in Belleville, Brantford, Burlington, Fort William, Guelph, Kingston, London, North Bay, Sarnia, Sault Ste. Marie, Sudbury, and Windsor);

2 in Manitoba (Winnipeg);

1 in Saskatchewan (Regina);

6 in Alberta (3 in Edmonton, 3 in Calgary);

4 in British Columbia (2 in Vancouver, 1 in New Westminster, 1 in Victoria).

<u>Fairweather Co. Ltd.</u>: 23 stores

20 in Ontario (7 in Toronto, 3 in Ottawa, Belleville, Burlington, Hamilton, Kingston, Kitchener, London, Oshawa, Sarnia, St. Catharines, Sudbury);

2 in Quebec (Montreal, Quebec City);

1 in Manitoba (Winnipeg).

Family Fair Stores: 6 stores

6 in Ontario (2 in Toronto, 1 in Burlington,
1 in Kitchener, 1 in Sault Ste.Marie,
1 in Welland).

Fashion Council:

10 in the Toronto area.

Harry Rosen Gentlemen's Apparel Ltd.:

1 in the Toronto area.

(1 opening in March, 1969)

LATEST DEVELOPMENTS

Dylex Diversified (1967) Ltd.

Report to Shareholders

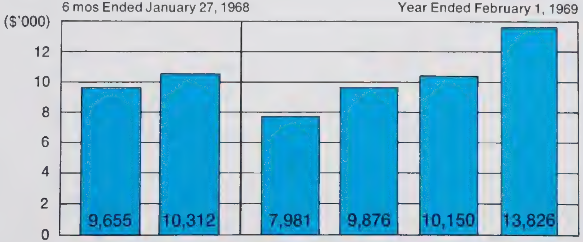
Six Month Fiscal Period Ended February 1, 1969.

Financial Highlights

	6 months ended February 1, 1969 ($'000)	6 months ended January 27, 1968 ($'000)
Sales	**23,976**	**19,967**
Earnings	**1,048**	**351**
Earnings per share	**0.52**	**0.24***
Cash flow	**1,346**	**631**
Cash flow per share	**0.66**	**0.43***
Working capital	**13,497**	**3,965**
Average no. of shares outstanding	**2,027**	**1,480**

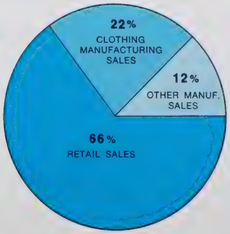
**after stock split and based on average number of shares outstanding*

QUARTERLY SALES FIGURES



SALES FOR THE PERIOD OF AUGUST 4, 1968 to FEBRUARY 1, 1969

SALES ($'000)	
RETAIL	15,700
CLOTHING MANUFACTURING	5,300
OTHER MANUFACTURING	2,900
TOTAL SALES	23,900



CONTENTS

President's Report

To Our Shareholders:
This report reviews operations of our Company for the six months ended February 1, 1969. Our year-end was changed from August 3 to February 1 to ensure an accurate and complete picture of all our operations, including recent acquisitions.

Financial Developments
As can be seen in the highlights on the opposite page, total sales increased 20 per cent over the same period in 1967. Earnings increased 199 per cent and earnings per share rose to $0.52.

Working capital increased to $13,497,000 from $3,965,000 in the same period the previous year.

In November, 1968, we completed a capital reorganization whereby shareholders received three newly created Class 'A' shares and one common share for each common share held. This will provide wider distribution for our shares and facilitate future growth.
In December, our Company, through its fiscal agents, placed privately 300,000 Class 'A' shares for a net return to the treasury of $5,550,000 or $18.50 per share, the approximate market price at that time.

A $1,850,000 mortgage was arranged with the Royal Trust Company on our property at Lake Shore Boulevard West, Toronto. This mortgage more accurately reflects the present-day market value of the building, appraised at $2,750,000.

Acquisitions

In August, all capital stock of Harry Rosen Men's Wear Limited was acquired in exchange for 19,000 pre-split common shares of Dylex. Mr. Rosen has taken a senior executive position with our Company and is now introducing his highly successful marketing techniques into all men's wear operations.

In November, two additional major acquisitions were completed. We acquired all shares of Fashion Council and its 10 Ontario stores. Its founders, Lionel Robins and Irving Levine, whose styling and merchandising flair made Fashion Council a leader in women's fashions, are developing new programs for our Fairweather chain which is now being merged with Fashion Council. This will keep our Company in the forefront of Canada's fashion world.

Dylex also purchased the assets of Nu-Mode Dress Company, a well-known and successful manufacturer of ladies' apparel. Henry Zagdanski, president of Nu-Mode, has taken an active position with the Company. His intuitive understanding of fashion trends will add new dimensions to our operations.

Our most recent acquisition was the purchase in February, 1969, of the chain of seven Valu Fair stores. Valu Fair is a health and beauty aids merchandising concern aimed at price-conscious shoppers. S. J. Hirsch and R. H. McPherson, who conceived Valu Fair, have joined the Dylex team. Their knowledge will be used to introduce Valu Fair departments into our Family Fair stores and for the introduction of additional Valu Fair outlets.

Our Company exchanged 450,000 Class 'A' shares for Fashion Council and Nu-Mode and 4,000 Class 'A' shares for Valu Fair.

Review and Forecast

Results for the six months under review reflect the continuing success of our reorganization program.

The Tip Top Tailor restructuring, involving image, merchandising, personnel, cost control and profit margins has had positive results and we anticipate further gains in the future.

With the merging of Fairweather and Fashion Council, some rationalization is anticipated affecting several Fairweather stores. The locations of these stores are better suited to lower-priced merchandising and they will be switched to Family Fair stores.

The addition of these stores to the Family Fair chain, plus the introduction of Valu Fair departments, will put this division on the threshold of major growth.

Our Ladies' and Men's Wear Manufacturing Groups are showing the first impact of additional profit contribution as a result of bringing new plants on stream, which have cut costs and raised efficiencies.

The Consumer & Industrial Products Group is moving ahead. We are expanding the Plastics Division plant and increasing plant capacity by 50 per cent.

Our Company is now moving out of the period of heavy expense brought about by our massive re-organization program. Problems do exist, but I am confident that these will be overcome as we enter a period of consolidation that will lead to higher sales and earnings.

We are nearing the end of a loss-carry-forward position during which time we paid no income taxes. This enabled us to execute substantial re-development and expansion programs.

As we enter a full tax period, we expect that our profit centre concept, our success in securing exceptional managerial talent and our rational acquisition policy will ensure growth and profitable results.

Appreciation

I would like, on behalf of the Board, to extend a special word of thanks to our employees. Their loyalty and untiring effort has been a vital factor in our success.

On behalf of the Board of Directors,

J. F. Kay

James F. Kay
President

March 19, 1969

Dylex Diversified (1967) Ltd. and Subsidiary Companies

Consolidated Statement of Earnings

	6 Months Ended February 1 1969	12 Months Ended August 3 1968	6 Months Ended January 27 1968 (unaudited)
Net Sales	$23,976,658	$37,823,552	$19,967,000
Earnings from operations before deducting the undernoted items	1,810,583	1,986,602	870,000
Remuneration of directors, as directors, officers or employees	142,454	175,435	43,000
Depreciation and amortization	253,185	440,344	266,000
Amortization of deferred charges	44,748	28,482	14,000
Interest on long term debt	177,384	190,758	62,000
Other interest	132,755	344,936	120,000
	750,526	1,179,955	505,000
	1,060,057	806,647	365,000
Income from investments	8,287	—	—
	1,068,344	806,647	365,000
Provision for income taxes (note 14)	50,224	10,211	14,000
Net earnings from operations	1,018,120	796,436	351,000
Equity in earnings of Dylex Acceptance Corporation Limited	2,438	—	—
Net earnings before extraordinary items	1,020,558	796,436	351,000
Gain or (loss) on sale of fixed assets	27,095	(24,713)	—
Loss on sale of investment	—	(60,000)	—
Net earnings for the period	$ 1,047,653	$ 711,723	$ 351,000
Earnings per share*	$0.52 (6 Mos.)	$0.45 (12 Mos.)	$0.24 (6 Mos.)

Consolidated Statement of Retained Earnings

	6 Months Ended February 1 1969	12 Months Ended August 3 1968
Retained earnings at beginning of period	$ 3,692,645	$ 2,980,922
Add: Net earnings for the period	1,047,653	711,723
	4,740,298	3,692,645
Less: Deferred income taxes payable prior period (note 13)	41,000	—
Retained earnings at end of period	$ 4,699,298	$ 3,692,645

**Based on average common and class "A" shares outstanding and allowing for stock split.*

Consolidated Statement of Source and Application of Funds

	6 Months Ended February 1 1969	12 Months Ended August 3 1968
SOURCE OF FUNDS		
Net earnings for the period	$ 1,047,653	$ 711,723
Charges not involving cash outlay:		
Depreciation and amortization	253,185	440,344
Amortization of deferred charges	44,748	28,482
Increase in equity of wholly-owned subsidiary	(2,438)	—
Funds generated from operations	1,343,148	1,180,549
Reduction in mortgages and other investments	36,739	175,259
Disposal of fixed assets	357,593	110,164
Increase in long term debt—mortgage proceeds	1,850,000	—
—other	20,000	2,880,386
Issue of capital stock	10,865,828	6,393,480
Deferred income taxes assumed on acquisition	15,684	—
	14,488,992	10,739,838
APPLICATION OF FUNDS		
Increase in mortgages and other investments	10,915	223,750
Additions to fixed assets	1,187,828	3,526,041
Excess of assets acquired over book values	3,547,994	4,192,787
Increase in deferred charges	129,424	62,999
Reduction in long term debt — mortgage redeemed	825,787	—
— other	698,230	580,400
	6,400,178	8,585,977
INCREASE IN WORKING CAPITAL	$ 8,088,814	$ 2,153,861
Working capital at end of period	$13,497,409	$ 5,408,595
Working capital at beginning of period	5,408,595	3,254,734
	$ 8,088,814	$ 2,153,861

Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Dylex Diversified (1967) Ltd., as at February 1, 1969 and the consolidated statements of earnings, retained earnings and source and application of funds for the six month period then ended. Our examination of the financial statements of Dylex Diversified (1967) Ltd., and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at February 1, 1969 and the results of their operations and the source and application of their funds for the six month period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario
March 14, 1969

WM. EISENBERG & CO.
Chartered Accountants

Dylex Diversified (1967) **Ltd.** and Subsidiary Companies

Consolidated Balance Sheet as at February 1, 1969

ASSETS

	February 1 1969	August 3 1968
CURRENT ASSETS		
Cash	$ 267,664	$ 70,389
Deposit certificates	505,000	—
Marketable securities (market value $32,200)	35,704	—
Accounts receivable	4,439,176	3,952,022
Inventories (note 3)	12,199,897	9,490,246
Prepaid expenses	251,738	362,112
Advances to wholly-owned acceptance company	2,208,039	163,788
	19,907,218	14,038,557
INVESTMENTS AND LOANS RECEIVABLE		
Investment in subsidiary (note 1)	2,538	100
Mortgages and other investments — at cost	64,193	90,017
Advances to key employees to purchase shares (note 4)	1,191,576	1,212,160
	1,258,307	1,302,277
FIXED ASSETS		
Land (note 5)	1,150,870	1,150,870
Buildings (note 5)	2,744,553	2,733,903
Machinery, equipment and leasehold improvements — at cost	7,385,146	6,156,230
	11,280,569	10,041,003
Less: Accumulated depreciation	4,690,848	4,028,332
	6,589,721	6,012,671
OTHER ASSETS		
Excess of cost of assets acquired over book values (note 7)	7,740,781	4,192,787
Deferred charges (note 8)	132,676	48,000
	7,873,457	4,240,787
	$35,628,703	$25,594,292

The accompanying notes are an integral part of the Financial Statements.

LIABILITIES

	February 1 1969	August 3 1968
CURRENT LIABILITIES		
Bank loans (note 9)	$ 959,210	$ 4,062,387
Accounts payable and accrued liabilities	4,213,923	3,598,025
Taxes payable	347,492	405,608
Long term liabilities due within one year	889,184	563,942
	6,409,809	8,629,962
LONG TERM LIABILITIES		
Notes payable (note 10)	1,579,773	2,210,171
Mortgages payable (note 10)	1,942,811	966,430
Bank loan — key employee stock plan (note 4)	1,191,576	1,212,160
	4,714,160	4,388,761
DEFERRED INCOME TAXES	56,684	—

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 11)		
Authorized		
3,000,000 common shares without par value		
10,000,000 class "A" participating preference shares without par value		
1,000 class "B" non-participating preference shares without par value		
Issued and fully paid (note 12)		
464,000 common shares	1,952,327	6,993,480
2,142,000 class "A" shares	15,906,981	—
EXCESS of appraised value over cost (note 5)	1,889,444	1,889,444
RETAINED EARNINGS	4,699,298	3,692,645
	24,448,050	12,575,569
	$35,628,703	$25,594,292

APPROVED ON BEHALF OF THE BOARD

J. F. KAY, *Director* W. POSLUNS, *Director*

Notes to Consolidated Financial Statements as at February 1, 1969

1. **Principles of Consolidation**
The accompanying financial statements consolidate the accounts of all subsidiary companies except for Dylex Acceptance Corporation Limited, a wholly-owned finance company which is not consolidated because of the different nature of its business. The investment in this subsidiary is carried on the consolidated balance sheet at cost plus the Company's share of undistributed net earnings since incorporation.

2. **Fiscal Year End**
The Company has changed its fiscal year end from the Saturday closest to July 31 to the Saturday closest to January 31 effective February 1, 1969.

3. **Inventories**
The inventories are valued at the lower of cost or net realizable value except for retail lines not manufactured by the Company which are valued at lower of cost or net realizable value less normal profit margins.

4. **Key Employee Stock Plan**
75,000 common shares and 100,000 Class "A" participating preference shares have been allocated to the trustees of the Company's Key Employee Stock Plan to be issued to full time key employees of the Company at a price not exceeding a 15% discount from market at the time of allotment. As at February 1, 1969, 75,000 common shares have been issued to key employees, 5,726 of which were issued during the current period. To facilitate the purchase of these shares by key employees the Company borrowed $1,553,000 from its bankers ($1,191,576 as at February 1, 1969) to be repaid over a period of ten years.

5. **Property Appraisal**
On December 29, 1967, the property at 637 Lakeshore Boulevard West, Toronto, was appraised by W. H. Bosley & Co. Ltd. at a value of $2,750,000. As a result of this appraisal the value of this property has been increased resulting in an excess of appraised value over depreciated cost of $1,889,444.

6. **Acquisitions**
At a shareholders' meeting on November 27, 1968 the following acquisitions were approved:
All the issued shares of Harry Rosen Men's Wear Limited for 19,000 common shares of the Company (before stock split).
All the issued shares of the Fashion Council group of corporations for 211,110 Class "A" preference shares of the Company.
The purchase of the assets and undertakings of Nu-Mode Dress Company and assumption of its liabilities for 238,890 Class "A" preference shares of the Company.

7. **Excess of Cost of Assets Acquired over Book Values**
The above acquisitions (Note 6) have resulted in an increase in the excess of cost of assets acquired over book values amounting to $3,547,994 during the six month fiscal period ended February 1, 1969.

8. **Deferred Charges**
This amount is being amortized at different rates depending upon the nature of the expense incurred.

9. **Bank Loans**
Bank loans are secured by a general assignment of book debts and inventories and by a 6% demand bond in the amount of $2,500,000. The bankers also hold as collateral security all the issued shares of the following wholly-owned subsidiaries: Ackron Plastics Limited, Plasti-Pak Containers Limited and The Family Fair Stores Limited.

Events Subsequent to Year End

The Company has acquired all the shares of Macsam Investments Limited for 4,000 Class "A" Preference Shares of Dylex Diversified (1967) Ltd. Subject to the fulfillment of certain conditions the Company has also agreed to acquire the businesses as going concerns of Cadillac Lumber and Building Products Limited and of Sandy's Department Store.

10. **Long Term Debt**

Notes payable	
7% subordinated promissory notes, final payment due December 27, 1971	$1,220,000
Other notes (secured $32,087)	359,773
	$1,579,773
Mortgages payable	
9¼% First Mortgage, final payment due October 15, 1973	$1,806,542
Other mortgages	136,269
	$1,942,811

11. **Capital Stock**
On November 28, 1968 supplementary letters patent were obtained increasing the authorized capital of the Company by 10,000,000 Class "A" participating preference shares without par value with restricted voting rights and 1,000 Class "B" non-participating preference shares without par value. Each common share was subdivided into one common share without par value and three Class "A" participating preference shares.

12. **Change in Capital Stock**

	Issued	
Common Shares		
Balance August 3, 1968	439,274	$ 6,993,480
Key Employee Stock Plan (Note 4)	5,726	160,328
Acquisitions (Note 6)	19,000	655,500
Subdivision of shares November 28, 1968 (Note 11)	—	(5,856,981)
Balance February 1, 1969	464,000	$ 1,952,327
Class "A" Preference Shares		
Subdivision of shares November 28, 1968 (Note 11)	1,392,000	5,856,981
Acquisitions (Note 6)	450,000	4,500,000
Issued for Cash at $18.50 net per share	300,000	5,550,000
Balance February 1, 1969	2,142,000	$15,906,981

The 300,000 Class "A" preference shares issued for cash represents a private distribution. These shares were issued at a price of $19.00 per share less a brokerage commission of 50 cents per share.

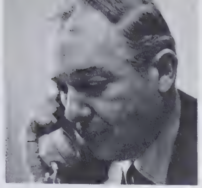
13. **Deferred Income Taxes**
Deferred income taxes have been provided in respect of capital cost allowances claimed for income tax purposes in excess of amounts recorded in the accounts. An amount of $41,000 pertaining to prior years has accordingly been charged to retained earnings.

14. **Provision for Income Taxes**
This represents the amounts payable by subsidiary companies. No other income taxes were payable due to the application of the losses carried forward from prior years.
The Company has an estimated loss carry-forward of approximately $220,000 which can be deducted from future profits for tax purposes.

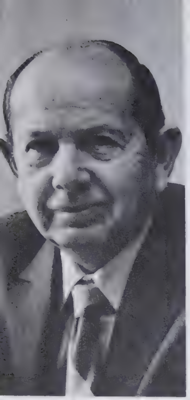
15. **Long Term Leases**
The minimum annual rentals on all leased property and equipment amount to approximately $2,063,000.
The total minimum rentals payable after February 1, 1974 is approximately $8,653,000.

16. **Remuneration of Directors and Officers**
Directors, as such, received no remuneration. The aggregate remuneration paid to 17 senior officers as defined by The Securities Act, 1966 (Ontario), including the executive officers, amounted to $235,905.

17. **Contingent Liability**
The Company is contingently liable as guarantor of bank loans of up to $60,000 of one of the Company's suppliers.



Irving Posluns



Louis H. Posluns

Wilfred Posluns

Jack Posluns

William Singer

Harry Rosen

Henry Zagdanski

Lionel Robins

Irving Levine

Dylex Diversified (1967) Ltd.

A Company Profile

Dylex Diversified (1967) Ltd. is a multi-faceted, growth-oriented company. The rapidly expanding Dylex operation has emphasized the manufacturing and retailing of consumer goods. It has 16 subsidiaries and employs about 3,000 people. Over 100 men's and women's retail clothing stores are spreading the Dylex influence on fashion across Canada.

A unique manufacturing plant, engineered to produce a high level of performance, has given the company what is believed to be the largest and most efficient clothing capability in the country.

The company's success to date leads management to believe that its concepts and talents could be successfully applied to almost any business area. Thus the company is actively seeking further acquisitions to strengthen and logically diversify operations. Dylex continues to be guided by its belief that the combined expression of entrepreneural courage, managerial discipline and adequate capital resources is the essence of success. In line with this philosophy, Dylex will continue to place heavy emphasis on managerial potential when considering further acquisitions. Earnings and growth potential will be viewed as equally important.

As such, Dylex seeks to both acquire and build exceptional management that can derive optimum advantages from the strength of a multi-faceted business operation.

TIP TOP TAILORS

Kurly Kate

fashion council

Nu-Mode DRESS COMPANY

SINGER LIGHTING

fairweather

Clothing Manufacturing Group:

This fast-growing group, consisting of Canadian Clothiers, manufacturers of men's suits including the high fashion Botany 500 and Leishman lines; Irving Posluns Sportswear; Jack Posluns and Company; Junior Deb; and the Nu-Mode Dress Co., has continued its trend toward increased use of automation begun in the first half of 1968.

With the heavy emphasis on automation has come a continuing increase in productivity and efficiency at all manufacturing plants.

A substantial reorganization of operations in the Canadian Clothiers plant is expected to make it more effective and profitable.

Irving Posluns Sportswear, Jack Posluns and Co., and Junior Deb are all expected to maintain the very satisfactory profit margins that they have been recording for the past several years. Nu-Mode Dress Co. will continue to realize a healthy profit margin.

The Clothing Manufacturing Group is expected to continue in its pace-setting role as a national leader in the garment manufacturing business.

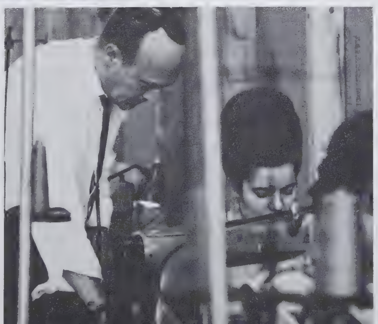
An automated conveyor system speeds production at the Lake Shore plant.

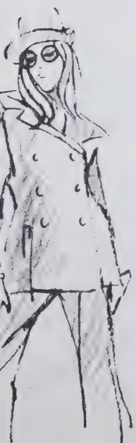
Quality control and proper storage is a major undertaking requiring constant checking.

Introduction of a unique grading machine ensures maintenance of quality while improving efficiency.

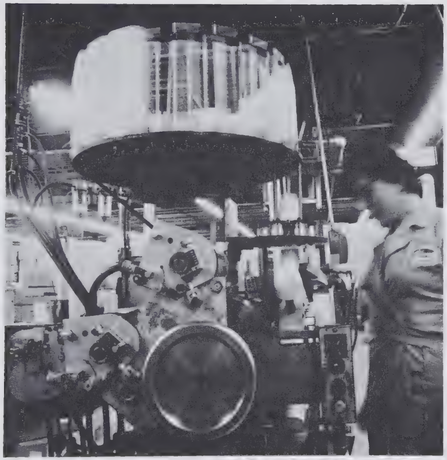
Properly trained employees are a major concern at Dylex where a school provides the latest in clothing manufacturing techniques.

Despite trends to automated manufacturing, hand tailoring still plays a vital part in the production of high-quality garments.





Consumer and Industrial Products Group:



Plastics Manufacturing Division

A special streamlining of its operations has been undertaken to enable the Plastics Division to keep pace with a rapidly rising demand for plastic products.

This group is comprised of two fast-growing plastics companies whose products are finding excellent acceptance in home, industry and institutional use.

Plasti-Pak Containers Limited, manufacturers of rigid plastic food containers for the packaging of margarine, yogurt, honey and other foods, continues to serve several of the largest food processing companies in Ontario.

Ackron Plastics Limited produces clear polyethylene film that is widely used in the construction industry. This unit also manufactures a fast-growing and popular line of garbage bags for both home and industrial use. These garbage bags, the division's newest and most popular products, are sold through leading non-food chains and convenience stores across the nation.

Consumer Products Manufacturing Division

The well-known and widely accepted Kurly Kate products produced by this division have been extended to include a line of colored garbage bags produced in close co-operation with the Plastics Manufacturing Division.

Other popular Kurly Kate products currently being sold in leading supermarkets, grocery and convenience stores across Canada include: pot cleaners, metal scouring sponges, scour cloths, and chemically treated cloths of many kinds.

Home Furnishing Division

This division manufactures the famous line of Singer Lighting products. Management anticipates increases in sales and volume of production this year, and is actively seeking new product lines of compatible items to ensure future expansion.

Singer has for years been recognized as one of the quality brand names in the medium-priced lamp and shade field. The fine Singer line of products now includes table and floor lamps, lamp shades, wrought iron room dividers, book stands, picture frames and prints.

An exclusive line of sculptured table lamps designed especially for Singer has been the latest addition to its product line.

These popular home products are sold in leading department and home furnishing stores across Canada.

Retail Group:

Women's and Family Retail Divisions

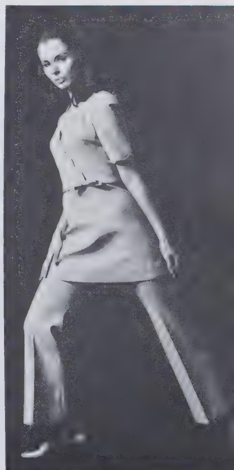
An exciting new dimension was added to the Dylex operation with the acquisition of the successful chain of Fashion Council stores, purchased in November, 1968, from its founders, Irving Levine and Lionel Robins.

Levine and Robins are outstanding merchandisers who built the ten-store chain into what is considered to be the style setter for ladies' fashion stores in Canada. Under their management, Fashion Council consistently recorded encouragingly high profit margins. To take advantage of the Levine and Robins flair for styling and merchandising, Fashion Council has been merged with Dylex' 21-store Fairweather chain.

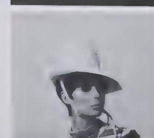
It is expected that the same merchandising ingenuity that brought about such success to Fashion Council will increase the profits of the higher-volume Fairweather chain. This combined retail women's wear operation should also enjoy an increasingly influential role in the Canadian fashion world.

A significant change in the Fairweather division's marketing strategy calls for a dramatic new merchandising program based on fashions that are selected for maximum volume appeal, presented in a unique atmosphere, and advertised in an imaginative way to increase turnover.

Because of their locations, some Fairweather stores do not lend themselves to this sort of upgrading. These stores, therefore, will become part of the Family Fair chain.



There are currently eight Family Fair stores in the Dylex Retail Group. These low-priced, "bargain center" type operations are meeting enthusiastic acceptance from budget-conscious consumers.
The 39 stores in the Women's and Family Retail Division are strategically located in major consumer centers in three provinces.
Fairweather has 18 stores throughout Ontario with seven located in Toronto; two in Quebec (Montreal and Quebec City); and a single store serving Winnipeg, Manitoba.
Eight Fashion Council stores are in the Toronto area with others located in St. Catharines and Burlington. Two new Fashion Council stores are scheduled to open in Moncton, New Brunswick and Halifax, Nova Scotia.
Family Fair operates eight stores in Ontario; two are in Toronto, and the others are in Burlington, Kitchener, Sault Ste. Marie, Welland, Belleville and Sarnia.



Men's Retail Division

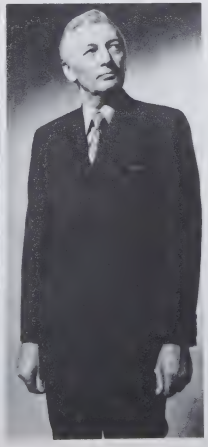
One of the most prominent and successful men in the Canadian world of gentlemen's fashion, Harry Rosen, has added his name, his business and his merchandising powers to the Dylex organization.

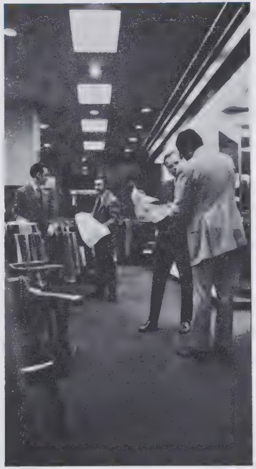
It is expected that Rosen will soon begin applying some of his exciting merchandising techniques to the 61 Tip Top stores.

Harry Rosen, the Canadian "Mr. Fashion" of the men's apparel world, is certain to spark this division to new heights of fashion influence.

In keeping with the company's resolve to improve the profit picture of the Tip Top chain, a complete reorganization was carried out resulting in changes ranging from major innovations in store layout to significant revisions in the approach to cost control at the store level. This reorganization is also expected to play an important role in the improvement of the chain's performance.

Largest chain in the Dylex operation, Tip Top has 61 stores serving nine provinces. These include: 33 stores in Ontario; 8 in Quebec; 6 in Alberta; 4 in Nova Scotia; 4 in British Columbia; 2 in Manitoba; 2 in New Brunswick; 1 in Saskatchewan; and 1 in Newfoundland.





Central Services Group:

Dylex has established a Central Services Group to supply vital "common denominator" services to all divisions.

In keeping with the company's determination to maximize profits and operating efficiency, each section operates as a separate profit center levying charges for services which are competitive with outside sources in both cost and capability.

Dylex Acceptance Corporation

Dylex Acceptance Corporation provides a complete consumer credit service fully competitive with outside firms and its performance compares favorably with others in the industry.

Real Estate and Development

This unit investigates and advises on new plant and store sites and oversees planning, development and layout for the company and its subsidiaries.

Personnel

A competent personnel section is maintained for control of records, for recruitment, for labor relations and for the administration of the company's benefits plan.

Personnel development service is available from this section for employee training and performance evaluation.

DIRECTORS
L. H. Posluns
J. F. Kay
W. Posluns
I. Posluns
J. Posluns
S. F. Kay
D. Korn
B. Dunkelman, D.S.O.
L. Weinberg
A. H. Zaldin, Q.C.
H. J. Stitt

EXECUTIVE OFFICERS
L. H. Posluns, Chairman of the Board
J. F. Kay, President
I. Posluns, Executive Vice-President
J. Posluns, Executive Vice-President
W. Posluns, Secretary and Treasurer

TRANSFER AGENT
National Trust Company, Limited

REGISTRAR
Canada Permanent Trust Company

AUDITORS
Wm. Eisenberg & Co., Chartered Accountants

BANKERS
Bank of Montreal

LISTED ON
Toronto Stock Exchange

HEAD OFFICE
637 Lake Shore Boulevard West, Toronto, Canada

TIP TOP STORES

NEWFOUNDLAND: *St. John's.* NOVA SCOTIA: *Dartmouth, Halifax (2), Sydney.* NEW BRUNSWICK: *Moncton, Saint John.* QUEBEC: *Montreal (3), Pointe Claire, Plaza Laval, Quebec, Ste. Foy, Chicoutimi.* ONTARIO: *Belleville, Brantford, Burlington, Fort William, Guelph, Hamilton (2), Kingston, Kitchener/Fairview, Kitchener, London, North Bay, Ottawa (5), St. Catharines (2), Sarnia, Sault Ste. Marie, Sudbury, Windsor.* TORONTO: *Bathurst/Lawrence, Bloor, Cedarbrae, Cloverdale, College, Dufferin, Dundas, Shoppers World, Yorkdale, Yonge.* SASKATCHEWAN: *Regina.* MANITOBA: *Winnipeg (2).* ALBERTA: *Calgary (2) Calgary Chinook, Edmonton, Edmonton Westmount, Edmonton Bonnie Doon.* BRITISH COLUMBIA: *Victoria, Vancouver, Vancouver Richmond, Vancouver Brentwood.*

FAIRWEATHER STORES

ONTARIO: *Hamilton, Ottawa (3), Toronto (7), Burlington, Oshawa, Kingston, Sudbury, London, Kitchener, St. Catharines.* QUEBEC: *Ville D'Anjou, Québec.* MANITOBA: *Winnipeg.*

FAMILY FAIR STORES

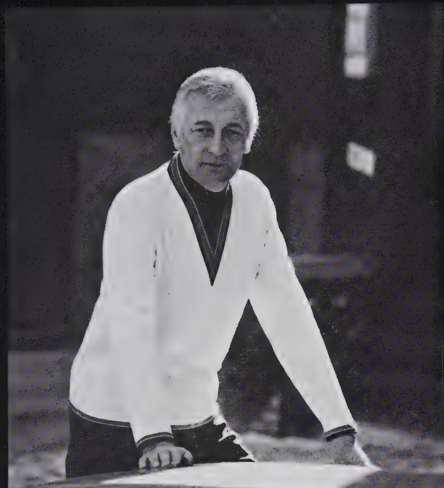
ONTARIO: *Toronto (2), Kitchener, Welland, Burlington, Sault Ste. Marie, Sarnia, Belleville.*

FASHION COUNCIL

BRAEMAR — ONTARIO: *Toronto (5), Burlington, St. Catharines.* **LAURA LEE** — ONTARIO: *Toronto.* **LEADING LADY** — ONTARIO: *Toronto.* **FOUR WINDS** — ONTARIO: *Toronto.*

HARRY ROSEN MEN'S WEAR

ONTARIO: *Toronto.*



Dylex Diversified (1967) Ltd.

HEAD OFFICE
637-657 Lake Shore Boulevard West,
Toronto, Canada

A NEW ORGANIZATIONAL PATTERN FOR PLANNED BUSINESS GROWTH

by James F. Kay, President
DYLEX DIVERSIFIED (1967) LTD.

Address to the
TORONTO SOCIETY OF FINANCIAL ANALYSTS
MARCH 12, 1969

A NEW ORGANIZATIONAL PATTERN FOR PLANNED BUSINESS GROWTH

I realize that normally you gentlemen prefer to have speakers deal as much as possible with basic financial information, and to minimize such things as management concepts and philosophies.

However, in the case of Dylex Diversified, I believe the circumstances are such that I must take a few moments to put our organization in proper perspective.

Companies that expand rapidly are frequently regarded by the financial community at best with a certain amount of scepticism — and at worst, with downright suspicion.

In addition, the conglomerate form of business organization has been coming under particularly heavy fire in the United States recently. Weakening stocks and other financial woes have raised questions about the motives of some conglomerate builders and even the validity of the basic idea.

Dylex is a new company, it is a conglomerate, and it is growing fast, but on carefully planned lines which I am confident will ensure us of a sound and successful future.

Now, some of you may have read internationally renowned business consultant Peter Drucker's latest book, "The Age of Discontinuity" in which he states that the greatest need in business today is for entrepreneural skills which will develop totally new ways of improving products and productivity. The shift and growth in population, he claims, have been responsible for almost all of our recent "progress", while the very structure of business — which has changed little since Victorian days — has choked off the possibility of genuine entrepreneural advances.

In this light I think our management concept at Dylex Diversified is of particular interest. For what we have done at Dylex is to assemble a group of businessmen with unusual entrepre-

neural talents, and to structure our organization in such a way that they have the greatest possible opportunity to put these talents to effective use.

The traditional concept of the conglomerate is an acquisition-oriented company that seeks to combine unrelated businesses. That certainly describes our company. But it is only part of the story. For we have developed in addition a way to combine people in a new organizational pattern . . . and we believe it is this concept of a conglomerate of people that will prove to be the source of our greatest strength. Indeed, in the short time we have had to test our theory in practice, we have already had ample proof.

Dylex Diversified looks for growth in two directions: through internal control and development; and through an enlightened acquisition policy. Let me describe these to you briefly.

In a sense, a conglomerate is not really very much different from any other large business organization. True, the conglomerate is more diversified than a specialized organization, but diversification will only be a source of trouble if it is undertaken for the wrong reasons or, as is also the case with specialization, if it is poorly controlled.

In Dylex, we have combined diversification of our corporate activities with intensive internal specialization, in a way that we believe gives us the best of both worlds.

Our management philosophy consists of three main concepts — the development of a management team of experienced, highly talented businessmen; the creation of a centralized corps of corporate services, and the intensive application of the "profit center" concept. In actual operation, the three are closely interwoven.

The profit center and central service ideas are certainly not new, but at Dylex we have refined them by making our organizational components totally independent and by making the success of each executive rest squarely on the success of his segment of the operation.

To start with, we seek out exceptional management people, put them in the right kind of environment with the facilities they require to perform to their maximum ability, and give them the kind of incentives that will make it worth their while to give maximum effort.

But this is by no means as simple as it sounds. Take the question of corporate environment. Any large company, if properly run, will be separated into various segments so that control can be properly exercised over them. What we have done at Dylex is to break each of our companies down into their various operational activities. Then we have grouped the "common denominator" services together, and run each as a completely separate, profit-making operation. Our corporate groups make use of the facilities of these central services only if they find it advantageous in comparison with outside sources, because they too, of course, operate as independent profit centers.

What is needed for successful operation of these "detail" activities, such as accounting, for example, is efficiency.

Now, as Peter Drucker has pointed out, if any company is to achieve a large degree of success today, it will not come about merely through efficiency, but rather through entrepreneural flair in areas like merchandising, styling or production. Our central services provide simple efficiency where it is required, leaving our managers free to develop their individual entrepreneural talents in these areas.

What enables us to carry these ideas as far as we have is the very fact that our organization is so broad in scope. Because each of our central services covers so many companies, specializes in only one type of activity and is forced to show a profit, they tend to become extremely efficient. For example, our Dylex Acceptance Limited, which handles credit services for our retail clothing operations, actually shows better operating profits than most independent retail credit companies.

Above the local management level we have a group of nine businessmen, each of whom had been extremely successful in his own right before joining the Dylex team — I am talking now about people like Irving Levine and Lionel Robins of the Fashion Council chain, Harry Rosen of the famous men's store of the same name, Henry Zagdanski, who built the highly successful Nu-Mode Dress Co., Bill Singer of the Singer Lighting Co., and Sam Hirsch and Robert MacPherson, who developed the Valu Fair chain. These are all men of exceptional executive ability, who have also developed outstanding talents in their own specific areas. . . .they are self-motivated individuals, with a deep sense of personal involvement. . . .and perhaps most important, they are success-oriented, earning their greatest fulfillment from the challenge and excitement of accomplishment.

While acquiring their companies, Dylex also acquired their great talents, and these are being used not only to direct their own operations within the Dylex organization, but in expanded ways as well. For example, Harry Rosen's merchandising talents are being made use of extensively in the operation of our Tip Top Tailors chain. And the style and fashion flair of Irving Levine and Lionel Robins which made the Fashion Council stores so successful, are now being applied to the Fairweather chain.

In addition, all of these men form a governing "cabinet" which, along with myself and Wilfred, Irving and Jack Posluns, meets frequently in full, or in part, to discuss major policy matters in all areas of the company. I will leave it to someone else to describe my abilities. . . .but as for the three Posluns brothers, in addition to joining me in founding this company, they also had previously established themselves individually as remarkably successful businessmen, with all of the attributes, in abundance, that I spoke of a moment ago.

At the top level of our organization, the four founders fulfil the "office of the president" — a term with which you are no doubt all familiar — with any one of the group fully capable of making presidential decisions at any time, should I not be available.

This free-flowing form of management allows our senior people enormous freedom for self-expressive action, while at the same time giving them great individual responsibility in an environment that by its very nature encourages and even demands exceptional performance.

One result of our concepts is that they have enabled us to pare down our staff to the point where we carry only the essential minimum of highly capable executives, with each one a specialist in his own area. In short, we have a trim, competitive, fighting team with every member motivated to produce maximum results.

Let me return now for a moment to our corporate philosophy. I described our company to you earlier as a conglomerate of businesses and people. You have heard the kind of people we are interested in bringing into our team. What kind of businesses are we interested in acquiring?

In the simplest terms, we are interested in acquiring any company, of any size, in any area of business, private or public, inside or outside the boundaries of Canada — provided it reflects our corporate and management objectives. We are looking for mature situations that will make an immediate contribution to our earnings, and that will add a new dimension to our existing operations — either by virtue of the business itself or its management.

We are looking for companies with growth potential in their own areas — these will be companies with quite satisfactory present management, but which through the injection of our management team and our many corporate facilities, could show greater growth.

In short, they must be companies that will bring immediate benefits to our organization, and at the same time they must be able to benefit themselves from joining us.

So far, what I have told you has been theory. I have taken the time to explain it to you because I believe it is extremely important that anyone assessing Dylex Diversified understands the management philosophies we are bringing to this new company.

But ideas are nothing without performance. Briefly, I would like to outline how our company was formed, and to explain to you some of the steps we have already taken in the course of implementing our management theories.

Dylex Diversified (1967) Ltd. is the result of the merger on July 31, 1967, of seven companies headed by myself, and three companies owned by the Posluns family. The two groups had acquired control of the Tip Top Tailors organization, a public company, which was used as the merger vehicle.

For your reference, the companies that I brought to the merger included: Singer Lighting Company, Ackron Plastics, French Ivory Products, Plasti-Pak, Kurly Kate (Canada) Ltd., the Fairweather Company Limited, and its subsidiary, Family Fair stores. The Posluns companies included Irving Posluns Sportswear, Jack Posluns & Co., and Junior Deb.

During 1968, we acquired the Fashion Council chain, the Harry Rosen Gentlemen's Apparel store, and the Nu-Mode Dress Co. Early this year we acquired the Valu Fair chain. We have just concluded an agreement to purchase the Cadillac Lumber Company, and negotiations are under way for further acquisitions which we will be announcing shortly.

Our organizational chart will give you a graphic illustration of our corporate set-up as it stands today.

Immediately following the completion of our merger, we started a massive corporate consolidation and reorganization of Tip Top Tailors, which as you may know had been losing money steadily for about 10 years. Our first step was to separate the retail organization from the manufacturing operation, naming the latter Canadian Clothiers.

In the process of reorganizing the Canadian Clothiers plant in the Lakeshore Boulevard building, we managed to reduce space utilization by over 70 percent — from approximately 200,000 square feet to 70,000 square feet, we cut back the payroll by almost 200 people, effecting a dramatic reduction in cost, and at the same time we improved production by over 30 percent.

I believe it is worth noting here that our staff reduction was done with union consent and approval. We presently deal with five unions throughout our various operations, and I am happy to say that they seem to be very competently run and that we enjoy satisfactory relationships with all of them.

As a result of this reorganization we were able to take advantage of the vacated space by providing efficient new facilities for a number of the Posluns operations, a large retail distribution facility, housing for our corporate head offices, our central corps of services and retail organization. Based on our savings in rent, this increased our cash flow on a combined basis by some $300,000.

While this was going on, we made an intensive overhaul of the Tip Top Tailors chain of men's clothing stores. Stringent inventory controls were introduced. Merchandising was up-graded and a number of expense items were brought under intensive scrutiny. The form of remuneration was changed, resulting in the reduction in the percent of selling cost from 17 percent to 12 percent — and our long-term aim is to reduce this still further to 10 percent. In essence, we retained our sales while reducing costs, and we followed this by introducing incentives to increase our sales. Several new stores were opened in prime new locations, and many of the existing stores were remodeled, refurbished and expanded.

When we took over the Tip Top Tailors opera-

tion, it had been running at an average annual loss of about $200,000 to $300,000. Despite the fact that we have had only two years for our concepts to be fully implemented and start taking effect, and despite the heavy expenses involved — we spent over a million dollars on the Lakeshore building alone — our projections show that the Tip Top chain and the Canadian Clothiers manufacturing operation will both begin to show profits during the current fiscal year.

Similarly, the Fairweather chain of women's clothing stores has not been a strong contributor to profits. So we have merged it with the highly successful Fashion Council chain, and at the same time switched several of its stores in secondary locations to Family Fair operations to take better advantage of the low-priced market.

One of the advantages our corporate structure offers is the broad-scale use of ideas that may have originated in any of the components. As just one example, I would point to our personnel evaluation plan, which was developed in this way, and which I believe is unusually effective.

I should also mention at this time that we have a unique stock purchase plan for our senior employees, in which we set aside shares to be purchased by the employees on a time basis. They get the advantage of the corporate gain over a number of years, but this is lost if for any reason their service is terminated. In other words it constitutes an exceptional incentive for them to remain with the company and to contribute to its growth and development.

Since our major interest at the moment is in clothing manufacturing and retailing, the state of the Canadian clothing market is obviously of great importance to us.

The future for the entire garment industry in Canada can only be described as promising, with increasing attention being paid to style and quality as incomes continue to rise.

Total factory shipments in the garment industry in 1968 reached a record level of $1.2 billion, up from $1.18 billion the previous year, and they are expected to advance between four and five percent this year.

The most promising trend in the garment industry is the awakening of interest in men's clothing styles. Men's clothing sales are estimated to have grown from five to seven percent in 1968, and the trend is expected to continue through 1969. This bodes especially well for our revitalized Tip Top Tailors and expanding Harry Rosen operations.

Now, to put what we have been doing in language that will perhaps be more meaningful to you gentlemen here today, our internal reorganization program has been aimed at reducing our debt position, expanding our working capital, refining inventories, strengthening sales, and in general trying to build a broad, and very strong base for future growth.

Our current projections show that as a result of our internal improvements, and without any further acquisitions, we can expect significant increases in sales and earnings over the next couple of years.

Our consolidated net sales for the fiscal year which ended in August, 1968, totalled $37.8 million. At current growth rates, our estimated sales for our existing operations for the fiscal year 1969 will be $60 million, rising to $76 million in 1970 and $90 million in 1971. Figures presently being prepared for the six-month period ending February 1, 1969 — you will notice that we have changed our fiscal year — show gross sales of approximately $24 million, which includes the sales for our 1968 acquisitions only from the date that they were acquired.

In addition, we have closed and are currently negotiating acquisitions which will bring a total of $20 million in gross sales and approximately $1 million in net profit for the current year. And of course we could have many other interesting developments to announce as the year progresses.

Because of the improvements resulting from our reorganization, our earnings are not expected to be hampered by the fact that we have moved out of the tax-loss carry-forward period and will not be paying full taxes. Indeed, the tax-free period provided us with the financial "breathing space" to complete much of our reorganization program.

There are two important aspects to our projections that should tend to make our situation somewhat stronger when they take full effect. First, as I have explained, although our Tip Top and Canadian Clothiers operations have been losing money and the reorganizations have been costly, we are now entering the period when they will make increasing contributions to our earnings. Similarly, our Fairweather chain and consumer and industrial operations have not contributed substantially to earnings in the past, but the current reorganization is expected to produce significant improvement in these areas as well. And it should be remembered that the other segments of our clothing manufacturing and retailing operations have consistently shown excellent profits.

Early this year we made a private placement of 300,000 Class A shares, with net proceeds to our company of $5.6 million. This put us in a strong financial position, enabling us to reduce our bank debt from approximately $8 million to $3.5 million, and with the seasonal business swing this debt has since been virtually eliminated. Our funded debt as of December 31, 1968 was about $3.4 million compared to shareholders equity of $24.5 million. Less goodwill on the books of approximately $7.5 million, this leaves us with a net equity of about $17 million.

From what you gentlemen have heard today, I hope you will appreciate that although the name "conglomerate" may be causing some concern in financial circles, Dylex Diversified is soundly based, and is being managed under policies that are aimed at further strengthening our position through internal efficiencies, entrepreneural development, and sound acquisition.

The greatest causes of worry in assessing any acquisition-oriented company are management competence and the soundness of the acquired companies, and the possible deterioration that can result from their neglect. Our acquisitions to date — the Fashion Council, the Harry Rosen store, the Nu-Mode Dress Co., the Valu Fair chain and the Cadillac Lumber Co. — have all added substantially to our earnings as well as to our executive team. I believe that our management record — and particularly the turn-around that we have been able to effect in the Tip Top Tailors organization and the steps we have taken with the Fairweather chain — should prove that neglect will not be allowed to become a weakness of this company.

Looking to the future, we will be constantly striving for ways to improve the position of our shareholders, by increasing the profitability of our existing operations, and through acquisitions that will strengthen our management team and contribute immediately to our overall earnings.

While we have set some intermediate growth goals, I am not at liberty to tell you how far we expect to take our company. But I can say that I believe we have a concept that is particularly well suited to the Canadian economy.

Dylex Diversified has been structured to provide a means whereby any company can acquire equity financing, sophisticated financial management and organizational assistance, as well as being able to take advantage of a team of highly competent executives who represent an extremely broad range of talents and experience. And there undoubtedly is great potential in Canada for soundly managed growth companies.

Gentlemen, I think you may now understand why it is we believe so uncompromisingly in the dynamic and exciting future of Dylex Diversified.